The Railroad Predicament: How It Arose and How to Get Out of It

By T. W. Van Metre
Associate Professor of Transportation, Columbia University

WHEN the armistice was signed in November, 1918, the people of the United States turned their attention at once to the many problems of "reconstruction" which were the legacy of war. Among these problems none presented more serious difficulties than the railroad question. For several years before the government had assumed charge of the railroads, the nation had been vexed with a "railroad problem." A year of government operation had served to add to former complications. There was universal agreement that radical action of some kind was necessary, but unhappily there was a bewildering confusion of counsel as to what this action should be. There was no resolute leadership, and there was no solidarity of opinion.

The many suggested "plans" for dealing with the railroad situation fell into three general classes:

1. Government ownership. The leading advocates of this policy centered their energies upon the promotion of of the Plumb plan.

2. The continuation of government operation for a longer period of time than had been originally contemplated. This plan was proposed by Mr. McAdoo, the first Director General of Railroads, and approved by his successor, Mr. Hines. Mr. McAdoo felt that government operation should be given a further test for at least five years, during which time a permanent railroad policy could be worked out in an orderly and scientific manner.

3. The speedy resumption of private control, with the enactment of such legislation as would remove the most glaring defects of the former railroad policy. Railroad managers, the owners of railroad securities, and the great majority of the public indorsed this general program, though there was a wide divergence of opinion as to what should be the character of the new Federal railroad legislation.

It was the last mentioned policy which was adopted. Congress was disposed to give little heed to any suggestion of government ownership, and was also averse to a continuation of Federal control for a period longer than was necessary for the enactment of a railroad law. President Wilson had no constructive suggestion to offer. He too was in favor of the speedy resumption of private control, but he chose to leave to Congress the task of formulating a new national railroad policy. After a year of somewhat perfunctory investigation and wrangling over details, Congress finally passed the Transportation Act, which became a law on February 28, 1920, two days before the termination of Federal control.

The Promise and Results of the Transportation Act

Railroad managers assumed charge of their various properties with a feeling of optimism. A guarantee of the standard return for a period of six months gave them assurance of time to reorganize their somewhat scattered forces without fear of financial trouble. Before the guaranty period expired the Interstate Commerce Commission, in compliance with the terms of the Trans-

portation Act, ordered a large increase in rates and fares, an increase which, if the volume of traffic should be maintained, would give to the carriers the "fair return" to which the law declared them to be entitled.

What were the results? The promise of a speedy restoration of railroad prosperity was not fulfilled. The business depression which began in 1920 was soon reflected in a sharp decline of railroad traffic, a decline which the increase in rates did not fail to stimulate. The railroad managers, finding their gross income much smaller than they had hoped for, with little prospect of early improvement, discovered that the working agreements and wage schedules negotiated during the time of Federal control were resulting in excessive and unfair returns to labor. They accordingly precipitated a controversy with their employees, in a manner so undiplomatic and at such variance with the express terms of the law that they aroused the bitter resentment of their workmen and earned for themselves the condemnation of a large group of railroad security holders. Agricultural, lumbering and manufacturing interests in many sections of the country, confronted with a downward movement of prices, began a chorus of protest against high railroad freight rates. Railroad credit, none too strong for many years, became almost demoralized. The railroad Labor Board, the Interstate Commerce Commission, President Harding and his Cabinet, are now all at work trying to solve the railroad problem again. The Senate is holding another investigation of the railroads to find out what the railroad problem really is, the only result being that it is turning over soil that has been plowed and replowed so often in the past ten years that a crop has never had a chance to grow. The public is fed with bulletins and press dispatches most of which consist of a mass of misleading propaganda from prejudiced witnesses who have recited their pieces so often that they are almost at the point of believing them to be true.

In surveying the present situation one feels inclined to wonder if Mr. McAdoo's suggestion that the period of Federal control be extended for at least five years was not worthy of more consideration than it received. His plan, if adopted, would at least have had the virtue of making possible the clear establishment of responsibility for the events of the reconstruction period. It is not unlikely that many weary railroad managers would gladly be relieved of the burdens which their haste for a resumption of private operation has so unexpectedly brought to them. But whether the choice of policy was wise or not, the choice was made, and we must abide by it. The problem of what to do next is the pressing question, and there is little comfort or profit in vague speculation as to what might have been.

Immediate Financial Aid for Railroads a Step Toward Business Revival

The railroad depression has existed so long and seems to have gone so steadily from bad to worse, that one is justified in asking whether there is ever going to be a marked improvement of a permanent character. Promise has succeeded promise, and each has been devoid of fulfillment. With the general economic situation such as it is, it is of the highest importance that whatever steps can be taken to restore the roads even temporarily to a semblance of prosperity should be taken without delay. While the railroad situation is not responsible for the general business depression, it is unquestionably a contributing factor of

no little significance. A partial restoration of the railroads to financial stability would do much toward stimulating activity in other fields of business enterprise. Something can be done perhaps to repair the fortunes of the railroads, irrespective of their relation to conditions throughout the business world.

UNBUSINESSLIKE POLICY OF UNITED STATES RAILROAD ADMINISTRATION CHIEFLY RESPONSIBLE FOR PLIGHT OF RAILROADS

The present financial plight of the railroads is due, more than to any other single cause, to the shortsighted policy pursued by the United States Railroad Administration when it conducted the railroad business at a loss. During the entire war period, while other business establishments in the United States, by increasing the margin between expenses of production and prices, were piling up surpluses to tide them over the inevitable period of reaction, Mr. McAdoo obligingly kept railroad rates at a level which produced revenue barely sufficient to meet the actual expenses of operation, and turned to the Federal Treasury for funds to meet the deficit occasioned by the necessity of paying rentals for the use of railroad properties. It does not appear that the government was unduly extravagant in operating the railroads. It was forced to pay higher prices for supplies and higher wages to workmen, but costs in the railroad business did not advance any more rapidly than in other fields of industry. As a matter of fact, when the period of Federal control ended, the wages of railroad labor were considerably below the level of wages of labor of a similar character in other industries, a condition which the Railroad Labor Board recognized in reaching its first important decision. Where the Railroad Administration failed, was in refusing to advance railroad charges at a rate commensurate with the rate of increase of commodity prices and wages. A single increase of twenty-five per cent was Mr. McAdoo's only notable change in freight rates during a period in which commodity prices and wages advanced approximately one hundred per cent. Had he pursued a sound business policy he would have exacted charges which would not only have served to meet all costs of operation, but which would have provided a surplus to meet any possible future claims for under-maintenance and to create a fund which in fairness the government could now turn over to the railroads to carry them through the period of depression.

The shortsighted financial policy of the Railroad Administration had certain unfavorable results which were perhaps of more significance than the deficit. When the railroads were turned back to their owners, the small margin of net earnings made necessary a large increase of rates and fares, which was promptly granted by the Interstate Commerce Commission. This increase came at a most unfortunate time, just when the prices of nearly all commodities were rapidly falling. While the advance of freight rates during a time of falling prices was probably not the sole cause of the large reduction of freight traffic, it certainly did not have the effect of encouraging greater shipments. The worst effect of the increase, coming when it did, was in its psychological aspects. It placed the railroad companies in a bad light with their employes and with shippers. No farmer who has just seen his wheat drop from three dollars to a dollar and a half a bushel accepts a forty-five per cent increase in freight rates with an air of cheerful equanimity. A drive for a reduction of wages loses some of its

effectiveness when it is staged immediately after a substantial advance of prices. What manufacturer would be so foolhardy as to advance the price of his product thirty per cent and the next month post a notice to his workmen that their wages would be cut twenty-five per cent and the working-day extended from eight to ten hours? The fact that the current of railroad finance was permitted to run almost directly counter to the current of finance in other kinds of business placed the carriers in an extremely awkward position.

Had the Railroad Administration exercised good judgment the carriers would have been in a position in August, 1920, to reduce rates instead of advancing them. Such action would have had a stimulating effect upon business and would have been to the advantage of the carriers financially. The campaign for a reduction of railroad wages would at least have had a background of greater plausibility. And the surplus which the government might have accumulated could have been used to prevent extreme financial embarrassment during the time of readjustment.

The Federal Government Should Make Restitution

Since the temporary insolvency of nearly all the railroads of the country is due largely to the unwise policy followed during the period of government operation, it seems that the only way out is for the government to make amends. It is probable that railroad bankruptcy on a large scale can be avoided only by government subvention of some kind. The government should give to the carriers, either as a subsidy or as a long time loan without interest, a sum equivalent, as nearly as possible, to the surplus which the Railroad Administration might have created out of earnings had adequate rates been established. A great many rates should be revised downward to permit traffic to move. Wages are being reduced and will probably have to be reduced still further. Net earnings will have to remain small throughout the period of readjustment, but with adequate government aid the carriers will be fortified against bankruptcy.

Financial Improvement Not Enough —Better Management Needed

It is not, however, the question of immediate reëstablishment of the financial strength of the railroads that should command the major share of attention. It has been apparent for a number of years that there is something fundamentally wrong with the great railroad system of the United States. It needs some overhauling. It seems to be suffering from a progressive decay, and little has been done to determine the cause. We have now succeeded in overcoming some of the vices which have so long afflicted the suffering railroads. Dual regulation by State and Federal authority has been checked; the Interstate Commerce Commission has received power to control railroad capitalization; there is a new commission to deal with labor controversies, and a long desired rule of rate making has been written into the statutes. When economic conditions return to normal there is a faintly hopeful expectation that the railroads will enter upon a life of renewed vigor. But will they do so? With these beneficial changes the situation should be somewhat better than it has been for several years past. But it will be only a question of time until the old round of complaint from management, labor, and shippers will begin again.

We shall not obtain substantial improvement in railroad transportation

until we have a few railroad managers who are big enough and bold enough to bear witness that the present railroad system is in many respects hopelessly antiquated; who, realizing that there has not been a single change of importance in the railroad business for a quarter of a century to meet the remarkable changes in American industry and commerce, will engage in a crusade to bring the railroad business up to date.

Apparently the only ideal that has ever actuated a railroad manager or financier in the United States is the ideal of size. Railroad development has been measured by the number of miles of track laid each year, no matter where they were laid or for what purpose. The ambition of the average railroad executive is to have the biggest freight car, the biggest locomotive, the biggest passenger terminal, or the biggest something else that is to be found in the world. Railroad management has been hypnotized by the processes of large scale production. Before 1900, when railroad traffic throughout the United States consisted chiefly of coal, grain, ore, lumber and other cheap bulky articles, there was ample justification for the development of a transportation mechanism intended primarily to carry huge quantities of bulk freight cheaply and expeditiously. Unquestionably, the railroad managers of America have led the world in the mass production of transportation.

ADJUSTMENT OF TRANSPORTATION MECHANISM TO NATURE OF TRAFFIC

It is a significant fact that the eastern railroads have been those which in the past twenty years have had the greatest difficulty in making both ends meet. For a long time the eastern portion of the United States has been undergoing a process of industrialization. There has been a remarkable increase in the demand for transportation in retail quantities instead of wholesale. It is time to inquire into the economies of using the same transportation mechanism to carry innumerable small shipments of package freight that is used to carry bulk shipments of coal, grain and ore. Why does it cost so much more to carry freight on the railroads of the industrial sections of New England than it does on the railroads west of the Mississippi River? May it not be partly due to the fact that the western roads are using a machine specially designed for the kind of traffic which they carry and the New England roads are using the same kind of machine to carry a different kind of traffic?

The only reaction which railroad managers have had toward successful motor truck competition in densely settled eastern districts has been in the nature of a pious objection to an unwarranted invasion of a vested right to conduct a business in an inefficient and uneconomical manner. It may have occurred to some of them that startling economies might be obtained by the coördination of railroads and motor trucks, with a pick-up and delivery service, but if so they have kept still about it.

A favorite gesture of American railroad financiers in past discussions of the capitalization of their roads has been to point to the comparatively enormous capitalization of English railroads. Have they ever stopped to consider that these heavily capitalized English roads, in the period before the war, with a relatively small tonnage of freight, with passenger fares which were considerably lower and freight rates which, in view of the service rendered, were probably no higher than in this country, were able to pay fairly good returns upon their capitalization? Transportation conditions between

Boston and New York are not greatly different from the transportation conditions over a large part of England. But the business is by no means conducted in the same manner.

The Importance of Coöperation—Joint Use of Terminals and Pooling

It has been pointed out over and over again that the railroad freight terminals of the United States, because of the competitive conditions under which they are operated, are a source of incalculable waste. During the troublous times of 1917, and for several years before that, when the waste of competitive terminals at large commercial centers was decried, railroad managers excused the system on the ground that coöperation was illegal because of the Sherman Act and the anti-pooling section of the Interstate Commerce Act. The Transportation Act expressly authorizes the organization of railroad pools. Has there been any notable attempt to take advantage of this law to effect a better organization of freight terminals? If anything, terminal competition has grown steadily worse during the past year. The coöperative activities inaugurated by the government have in a large part been discontinued. In Chicago, one powerful railroad corporation is endeavoring to obtain exclusive possession of important belt line facilities. In New York, the railroad financiers have shown their coöperative spirit by organizing a corporation to build a Hudson River bridge, just after the New York-New Jersey port commission recommended the construction of a great union terminal, the central feature of which was to be a tunnel under the Hudson River at about the same point where the piers of the contemplated bridge are to be installed.

Improved Personnel Policies In Order

Railroad management in the United States is suffering from arrested development. During the past quarter of a century the country has moved ahead; the railroads have held back. Railroad corporations, the oldest, wealthiest and most powerful business institutions of the country, have scarcely felt the impulse to spend money on educational activities for their employes. Yet educational work has been pursued with most gratifying results by dozens of banks, insurance companies, manufacturing establishments and department stores. Not until the Railroad Labor Board ordered the abrogation of the national working agreements did the carriers discover that virtually no machinery existed through which they could conduct conferences with their working forces. The Pullman Company, apparently at a loss as to how such machinery could be created, tried to negotiate new agreements in a mass meeting. Railroad presidents claim that they want college graduates in the railroad service, but where is the college graduate who seeks railroad employment? Heads of engineering schools testify almost unanimously that their graduates no longer enter railroad service because the railroad business has become so crystallized and so bound by routine that individual merit is rarely recognized and promotion comes usually through "influence" or mere seniority.

As the railroad system exists today it is an impressive monument to its wonderful past. But, like most monuments, it is surrounded by a graveyard atmosphere.